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UNCLAS SECTION 01 OF 07 PRETORIA 000520

SIPDIS

SENSITIVE
SIPDIS

FOR SENATOR SHELBY AND DELEGATION FROM AMBASSADOR ERIC BOST

E.O. 12958: N/A

TAGS: [ECON](#) [OTRA](#) [PGOV](#) [PREL](#) [SENV](#) [SF](#)

SUBJECT: SCENE-SETTER FOR CODEL LED BY SENATOR RICHARD
SHELBY

¶1. (SBU) I warmly welcome the visit of your delegation to South Africa. My staff and I stand ready to do everything we can to make your trip a success. You are visiting South Africa at a particularly interesting time, only a few months after Jacob Zuma defeated incumbent Thabo Mbeki as leader of the ruling African National Congress (ANC). Because the ANC has overwhelming support in the country (70 percent in the last election), Zuma is now the leading candidate to become the next national president following parliamentary elections expected in March/April 2009. However, the December 28 indictment of Zuma on corruption and fraud charges complicates his political future. Zuma's trial is scheduled to begin August 14, 2008, and a conviction would derail his bid for the national presidency. With Zuma in charge of the ruling party, his rival Mbeki in control of government, and the court case looming, the upcoming year will test South Africa's young democracy.

¶2. (SBU) South Africa is an anchor country in U.S. Africa policy. Since the end of apartheid in 1994, the ANC-led South African Government (SAG) has made major progress toward establishing a vibrant democracy and market-based economy. The SAG has focused on political and economic transformation: closing the gap between the historically privileged and disadvantaged communities -- primarily through government-provided housing, electricity, and water to the poor -- and creating educational, skills development, employment and business opportunities. South Africa, however, continues to face daunting challenges, including a lack of public sector operational capacity, a thirty percent shortfall in mid-to-upper level public sector managers, skills shortages in all sectors of the economy, growing infrastructure bottlenecks, energy shortages, income inequality between haves and have-nots, less than adequate educational opportunities, massive unemployment, entrenched poverty in both rural and urban areas, violent crime, and a severe HIV/AIDS pandemic. These problems are intensifying political tensions within the ANC-led ruling coalition and with other political, civil society and private sector groups. The tense debate at the party's December 16-20, 2007 national conference and defeat of incumbent Mbeki reflected the growing impatience with the pace of socio-economic change particularly for those who have not benefited sufficiently from the modest economic growth.

¶3. (SBU) Despite its challenges, South Africa remains the continent's best prospect for establishing a successful democratic society with expanding prosperity. South Africa is a leader of aid-recipient countries in their dialogue with donor nations, plays a key role in promoting peace and

stability in Africa, and is an important voice on global trade, human rights, conflict resolution and nonproliferation issues. U.S.-South African relations are stable, as reflected by President Bush's July 2003 visit to South Africa and President Mbeki's June 2005 and December 2006 trips to Washington. We share objectives in common on the African continent and beyond, and we work together closely on many of them.

POLITICAL OVERVIEW

¶4. (SBU) The African National Congress (ANC) dominates the political scene in South Africa. The ANC won 70 percent of the vote, and 279 of 400 seats in the National Assembly in the April 14, 2004 elections. Subsequent "floor crossing" periods, in which parliamentarians were allowed to switch parties, boosted the ANC's total to 297. The ANC also won 66 percent of the vote nationally in the March 2006 local elections. The Democratic Alliance (DA) is the largest of several opposition parties in parliament, with 47 seats. The ANC leads the administrations in all nine of South Africa's provinces and in the vast majority of its municipalities. The most visible exception to this country-wide ANC domination is the DA's control of the Cape Town municipality where there have been multiple attempts by the ANC to unseat the DA-led, multi-party municipal government coalition.

¶5. (SBU) The December 16-20, 2007 ANC National Conference in Polokwane, Limpopo significantly shifted power within the ruling party. New ANC President Jacob Zuma defeated incumbent, national President Thabo Mbeki, by a vote of 2,329

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to 1,505. Zuma's allies swept the other top five ANC leadership positions. The Zuma camp also dominated the elections for the ANC's 86-member National Executive Council (NEC), with sixteen Mbeki Cabinet members (out of 28) losing their NEC seats. While Zuma's victory makes him the frontrunner to become national President following the 2009 parliamentary elections, the December 28 indictment of Zuma on corruption and fraud charges complicates Zuma's political future. Zuma's political allies have alleged that the corruption case is politically-motivated, a charge prosecutors and Mbeki strongly deny. Zuma has stated he will step down as ANC President if convicted. If convicted and sentenced to more than 12 months imprisonment, Zuma would be constitutionally prohibited from running in the 2009 parliamentary elections, effectively blocking his succession to the national presidency.

¶6. (SBU) It is too soon to tell whether the dramatic events at the ANC National Conference will result in any significant changes in South African Government policy. Mbeki remains in control of the government until 2009, and the ANC conference policy resolutions did not advocate any sweeping changes. New ANC President Zuma has stressed that he will not make any radical shifts and would respect the party's previous policy traditions, statements and consensus. However, many of the new ANC leaders - and Zuma's strongest coalition supporters - come from the left wing of South African politics. The Congress of South African Trade Unions (COSATU) and South African Communist Party (SACP), formally members of the ANC-led tripartite alliance, will likely pressure Zuma to embrace more leftist or perhaps even populist positions in the interests of the poor and the working class. On issues like HIV/AIDS and Zimbabwe, this could lead to SAG policies more closely in line with U.S. interests, although on other issues like fiscal management and trade liberalization the shifts in policy might be less positive from a U.S. perspective. It is also possible that the newly elected ANC leaders might be more seized with domestic rather than continental or global issues, which could alter the country's current activist role in international affairs.

¶17. (U) South Africa has taken a high-profile role in promoting Africa's development. South Africa served as the first chair of the African Union until July 2003 and helped establish continental institutions such as the Pan-African Parliament (which sits in South Africa) and the AU Peace and Security Council. President Mbeki is the driving force behind the New Partnership for Africa's Development (NEPAD), an African-developed program based on international best practices and continental peer review to strengthen economic and political governance across the continent and a framework for productive partnership with the international community.

¶18. (SBU) South Africa recognizes that, by virtue of its regional political, economic, and military clout, it has a responsibility to participate in African conflict resolution and peace support operations. South Africa played a leading role in negotiations that ended the conflicts in Burundi and Qrole in negotiations that ended the conflicts in Burundi and the Democratic Republic of Congo. Approximately 3,000 personnel are deployed in UN, African Union and bilateral peace support operations in Sudan, Burundi, DRC, Ethiopia/Eritrea, and Comoros. The U.S. has a strong interest in seeing South Africa expand and enhance its peacekeeping and disaster assistance capabilities. South Africa participates in the African Contingency Operations Training and Assistance program (ACOTA) to enhance the capacity of the South African National Defence Force (SANDF) for participation in multilateral peace support operations. We are using International Military Education and Training (IMET) funds to support professional military education and technical training of future military leaders and to assist the SANDF in improving management of its defense establishment. In light of the January 2008 repeal of ASPA prohibitions on provision of military assistance, we hope soon to resume Foreign Military Financing (FMF) programs aimed at enhancing the South African Air Force's strategic airlift capability by funding C-130 annual maintenance, upgrades, technical support and flight simulator training.

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¶19. (SBU) Zimbabwe remains a continuing challenge and increasing concern for South Africa. In March 2007, regional SADC leaders appointed Mbeki as official mediator between Zimbabwean President Robert Mugabe and the opposition Movement for Democratic Change (MDC) with the goal of leveling the playing field in advance of March 2008 elections. Negotiations made some progress, but human rights abuses against the opposition continue. Mugabe has shown little willingness to open the political environment and allow free and fair elections. While South Africa wants political and economic stability with reform in Zimbabwe, SAG officials argued that additional pressure, such as public criticism or additional sanctions, would have little positive effect on President Mugabe and could destabilize Zimbabwe with spillover effects in South Africa. South Africa already hosts between 1 and 2 million Zimbabwean refugees. In the elections scheduled for March 2008, there is a limited possibility that the two challengers could attract sufficient support to erode Mugabe's ruling ZANU-PF overall majority in parliament. However, it is not likely that the conditions for free and fair elections will be in place to produce a truly competitive poll. Some critical analysts and observers contend that the election may have been stolen before any votes were cast.

¶10. (SBU) Overall U.S.-South African relations are positive, but South Africa sometimes takes positions on global issues that run counter to U.S. interests. As a non-permanent UN Security Council member, and former chair of the G-77 and the Non-Aligned Movement (NAM), South Africa has taken up the

cause of a greater "South" voice in international institutions, increased development assistance, an expanded UN Security Council, and lower trade barriers (for manufactured and agricultural exports to developed countries).

THE ECONOMY AND THE STRUGGLE TO TRANSFORM

¶11. (SBU) As the dominant and most developed economy in sub-Saharan Africa, South Africa is markedly different from other countries of the region. It is a middle-income, emerging market economy with GNI per capita of \$5,670 (2007), akin to Chile, Malaysia, or Thailand. The South African government's fiscal and monetary policies are excellent. The ANC government steadily reduced the fiscal deficit from nearly 6 percent of GDP in 1994-95 to a small surplus of 0.6 percent in 2006-07 and a projected 0.8 percent in 2007-08. The South African Reserve Bank (SARB) is independent and committed to CPIX inflation (CPI excluding mortgage interest costs) within a target band of 3.0 to 6.0 percent. Inflation fell from 12.4 percent at the beginning of 2003 to 4.8 percent in June 2006, but has recently crept back up to 8.8 percent (January 2008). Real GDP growth was 5.1 percent in ¶2007. The South African Department of Finance expects growth to slow to 4.0 percent in 2008-7 and 4.2 percent in 2009. However, this growth is measured against an increasingly strained energy supply which has led to power shortages.

¶12. (SBU) South Africa's single greatest economic challenge is to accelerate growth. GDP growth averaged 3.0 percent per year between 1994 and 2004, and was not sufficient to address Qyear between 1994 and 2004, and was not sufficient to address widespread unemployment and reduce poverty. The official unemployment rate, currently 25.5 percent, has only recently begun to decline, and is significantly higher among black South Africans than among whites. Income inequality between haves and have-nots remains high. Poverty is widespread. Fifty-six percent of black South Africans, but only four percent of whites, live in poverty. Nevertheless, the government has made strides in the areas of transfer payments and public services to close the gap. Nearly 2.5 million low-cost homes have been built to provide shelter to 7.6 million people, 3.5 million homes have been provided with electricity, and nine million people have been connected to clean water. Almost 12.4 million people were benefiting from social grants in 2007 (compared to the country's five million individual taxpayers). The government's broad-based Black Economic Empowerment (BEE) program provides ownership and employment opportunities to blacks and has helped the black middle class double to an estimated two million since 1994. The black middle class has expanded appreciably over the last year, increasing by 30 percent. Of the approximately 48 million person population, 6 million belong to the middle

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class, with 3.4 million being whites and 2.6 million being blacks. Of course, with the white middle class migrating out in record numbers, and the black middle class growing rapidly, the black middle class will continue to increase both in size and as a percent of the total middle class.

¶13. (U) The success in preparing for and carrying off the FIFA 2010 Soccer World Cup to be held in South Africa is regarded by many as a bellwether of the country's commitment to continued progress in a variety of social and economic areas, among these being the fight against crime, expanding and improving infrastructure, providing services, and developing tourism.

Environment, Science and Technology - A Delicate Balance

¶14. (U) South Africa currently spends 0.6 percent of its GDP on science and technology and the South African

government wants to increase that figure to 1.0 percent within the next five to ten years. South Africa has channeled its S&T focus in the last decade, concentrating on science for development and on areas of traditional strength, such as paleontology, astronomy, social science and biodiversity.

¶15. (U) The Department of Science and Technology (DST) is the major funder of S&T research, including most S&T infrastructure projects, such as the Hermanus Magnetic Observatory. The National Research Foundation (NRF), a DST agency, provides funding for research and for students. Research Councils throughout the country fund specialized research and student scholarships. NRF has just completed a major strategic planning exercise and is focusing its efforts on: research and innovation; astro/space/geoscience infrastructure; biodiversity/conservation infrastructure, including the South African Environmental Observatory Network (SAEON); and nuclear science.

¶16. (U) Capacity building remains a major challenge. The NRF has instituted a new program aimed at increasing the number of PhDs fivefold by 2018. Nevertheless, a lack of capacity continues to hamper scientific research. Scientists across the country also note that the lack of broadband and other computing connections impede scientific advancement.

¶17. (U) South Africa remains committed to conservation and is a recognized world leader in wildlife management. For example, South Africa's elephant herds are so numerous that the government recently announced that culling might become necessary. Major conservation NGOs such as the World Wildlife Fund/South Africa and TRAFFIC supported this decision because the South African government's management and decision-making policies are science-based and transparent. However, economic and social pressures can play a role in environmental decisions. The government recently rescinded a ban on endangered abalone fishing after numerous protests from disadvantaged fishing communities.

¶18. (U) The Department of Environment and Tourism Affairs (DEAT) walk a delicate balance between promoting climate change/adaptation policies and advocating economic growth. South Africa would like to play a role as a green leader within the developing world. However, it recognizes that its coal-based energy systems (95 percent of the country's electric power comes from coal-fired power stations) preclude electric power comes from coal-fired power stations) preclude certain decisions/actions. In the past 10 years, South Africa has enacted a series of well-regarded environmental laws, many based on U.S. EPA criteria or standards and on principles found in international agreements. Over the past four years, South Africa has begun to enact implementation legislation to enforce these statutes. One key enforcement tactic has been the establishment of the Environmental Management Inspectorate (EMI), also known as the "Green Scorpions". Prosecutors from the U.S. Department of Justice and investigators from the U.S. Environmental Protection Agency (EPA) developed and presented training programs for the initial cadre of EMIs. That program has now been replicated throughout the country and EMIs are found not only at the national level, but also in provincial and metropolitan environmental agencies.

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TRANSPORTATION - WELL DEVELOPED, RELIANCE ON STATE

¶19. (U) South Africa's transport infrastructure is well developed and is the best in Africa. There are sizeable and efficient ports, a road network that is mostly excellent, and good air links, particularly to Europe and the U.S., and increasingly to Asia and the rest of Africa. The network of rural secondary roads is less well developed. Transport

policy has led to a shift from rail to road since the liberalization of transport in the mid-1980's and a relative lack of investment in rail. Lack of control over heavy-vehicle overloading has led to significant damage to the road network and substantial backlogs in maintenance.

¶20. (U) State-owned Transnet owns and operates port facilities, including the Port of Durban, the largest in Africa. Transnet Freight Rail (formerly known as Spoornet) runs an extensive rail network, including spurs to transport coal from Mpumalanga coal-fields to the Richards Bay Coal Terminal and iron ore from the Western Cape to the port of Saldanha. The government has not allowed private investment in rail lines. There has been substantial under-investment in locomotives and rolling stock. South Africa Airways has direct flights to the U.S., Europe, and Asia, and is a world-class airline. It cannot effectively position itself as an international hub, because of its location at the end of the African continent, so it has focused more recently on travel within Africa.

KEY SECTORS - WATER AND ENERGY

¶21. (U) South Africa is a water-scarce country given that much of the country is semi-arid, but nevertheless subject to periodic flooding. South Africa's water policy is based on managing scarce water resources to ensure that water is used to support equitable and sustainable social and economic transformation. The government aims to ensure provision of water services - potable water and safe sanitation - to all people, but especially to the poor and previously disadvantaged. The National Water Act of 1998 transformed the way water is controlled, from a system of rights based on land ownership to a system designed to allocate water equitably, efficiently, and sustainable in the public interest. The National Water Resource Strategy targets progressive decentralization of responsibility and authority for water resources management to catchment management agencies and local water user associations.

¶22. (SBU) South Africa now faces electricity supply shortages and load-shedding, given strong demand growth and delays in construction of sufficient new supply. State-owned electricity supplier Eskom has now embarked on the building of new coal-fired plants. The Government has undertaken a plan to diversify its energy mix by greatly expanding its portfolio of nuclear power plants. Westinghouse and Areva of France are competing for up to 20,000 MW of new nuclear power plants over the next twenty years. The Government seeks to augment use of renewable energy and energy efficiency. South Africa is a significant oil importer and has built up a significant coal-to-liquids technology capability to reduce its reliance on oil imports. Automobiles in the interior of South Africa run on coal-derived fuel.

U.S. SUPPORT FOR SOUTH AFRICA

¶23. (U) Since 1994, the United States Government has contributed approximately \$1.2 billion toward South Africa's development, including \$201 million in credit guarantees. Currently, our development assistance program focuses on strengthening the healthcare system, addressing unemployment through job-skills training and education, creating models for efficient service delivery, reducing gender-based violence as part of the President's Women's Justice and Empowerment Initiative (WJEI), as well as HIV/AIDS through PEPFAR. A wide range of U.S. private foundations and NGOs are also at work in South Africa. Among them are the Gates

Foundation (HIV/AIDS), the Ford Foundation (higher education), and the Rockefeller Foundation (adult education).

¶24. (U) Twenty-eight U.S. government entities are represented at the U.S. Mission in South Africa (Embassy Pretoria and the three Consulates in Cape Town, Durban, and Johannesburg). The Mission has 281 U.S. employees and 564 local employees. More than 40 percent of Mission staff provides regional services to other U.S. embassies in Africa. The Mission has embarked on an ambitious program to build safe office facilities. In FY 2005, the Mission completed the new Consulate compound in Cape Town, and in FY 2006 broke ground on a new Consulate building in Johannesburg. In FY 2009, the Mission intends to break ground on a new 155-desk office annex in Pretoria.

U.S.-S.A. TRADE AND INVESTMENT

¶25. (SBU) U.S.-South Africa trade grew 22 percent in 2007, totaling \$14.3 billion. U.S. exports were up 23 percent at \$5.2 billion, while South African exports to the United States increased 22 percent at \$9.1 billion. In 2006, South Africa was the 37th largest trading partner of the United States, equivalent to Turkey or Chile. It is the largest U.S. export market in sub-Saharan Africa, twice the size of Nigeria and equal to Russia or Argentina. South Africa was the third largest beneficiary of AGOA in 2007, and the largest beneficiary of non-oil exports to the U.S. Its AGOA exports totaled 25 percent of the country's total exports to the U.S. in 2007. An impressive 99.6 percent of South Africa's exports entered the U.S. with zero import duties in 2005 as a result of normal trading relations (NTR), GSP and AGOA benefits. Only 0.4 percent of the value of South Africa's exports to the U.S. was subject to duty or \$26 million out of \$5.9 billion in exports in 2005. The U.S. also replaced Japan as the largest export market in 2007. The U.S. is the second-largest two-way trade partner, after Germany. Over 600 U.S. firms have a presence in South Africa with 85 percent using the country as a regional or continental center. South Africa's stable government, sound fiscal and monetary policy management and, by African standards, its large market are the primary attractions for U.S. businesses. South Africa has, however, failed to attract a proportionate share of foreign direct investment since 1994. Reasons include: high unit labor costs, labor regulations, skills shortages, crime, HIV/AIDS, regulatory uncertainty and the impact of Black Economic Empowerment policies. The U.S. was the largest portfolio investor and the second largest foreign direct investor in South Africa (\$5.1 billion at year-end 2005).

¶26. (SBU) Following six rounds of negotiations over three years, the U.S. and the Southern African Customs Union (SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland) agreed in April that they could not conclude negotiations on a free trade agreement (FTA) by their target date of December ¶2006. Negotiators subsequently agreed to deepen the bilateral relationship through a Cooperative Agreement on Trade, Investment and Development (TIDCA). Discussions are currently underway for the signing of a framework agreement for the TIDCA.

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HIV/AIDS: A CRISIS OF EPIC PROPORTIONS

¶27. (U) South Africa has the largest number of HIV-infected citizens in the world and HIV/AIDS is the country's leading cause of death. South Africa has a generalized, mature HIV epidemic and HIV-related care and treatment services are required across the population. An estimated 5.4 million South Africans are HIV-positive; including 2.7 million women and approximately 300,000 children aged 14 or less. An estimated 18.8 percent of the adults between 15 and 49 are infected. Women in the age group 25-29 are the most

seriously affected, with prevalence rates of up to 40 percent. In 2005, an estimated 800,000 more citizens became infected and in 2006, 350,000 adults and children died from AIDS. An estimated 2-3 million children, or approximately 15 percent of South Africa's children, have had at least one parent die. Sixty-six percent of these children had been

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orphaned as a result of AIDS. The number of AIDS-related deaths since the start of the epidemic is estimated at 1.8 million, with 71 percent of all deaths in the 15-41 year old age group being due to AIDS. Continued AIDS-related mortality will create millions of new orphans and generate additional social and economic disruption, including orphans being raised by extended family members or in child-headed households.

¶28. (U) In April 2007, the South African Government released its National Strategic Plan for HIV, AIDS, and Sexually Transmitted Infections (STIs) for 2007-2011 (NSP). The NSP has the goal of reducing new HIV infections by 50 percent by 2011 and also aims to boost provision of anti-retroviral treatment (ART) in South Africa. However, South African public health facilities suffer from an acute shortage of skilled personnel and laboratory and clinical infrastructure.

Considerable investment in human resources and infrastructure is necessary to meet the NSP's national anti-retroviral treatment targets. Approximately 230,000 people were receiving anti-retroviral (ARV) treatment as of 2006, while a further 540,000 people needed, but were not receiving, treatment. The Global Fund has provided major grants to the Western Cape Health Department and a public-private consortium in KZN.

¶29. (SBU) The President's Emergency Plan for AIDS Relief (PEPFAR) is in its fourth year of implementation working with public and private sector prevention, treatment, and care programs. To date, the U.S. has provided \$857.8 million through PEPFAR to support HIV/AIDS programs in South Africa, with an additional \$590 million to be funded in FY 2008, making it the largest recipient of Emergency Plan resources. The Emergency Plan directly supported 204,692 people in ARV treatment through programs in all nine provinces as of September 2007. The USG PEPFAR team in South Africa includes U.S. Agency for International Development (USAID), Centers for Disease Control (CDC), Department of State, Department of Health and Human Services (HHS), Department of Defense, and Peace Corps. The team works to ensure that the PEPFAR strategic plan is aligned with the goals of the NSP. The South African military has expanded prevention programs and collaborates with the U.S. military and NIH on AIDS treatment research.

¶30. (U) South Africa has the strongest research and training capacity of any country in the region, making it an important partner in the fight against HIV/AIDS. USG agencies work with national and provincial health departments, the military, universities and NGOs to strengthen primary health care, prevention, disease surveillance and research. President Bush and President Mbeki confirmed a mutual commitment to expand HIV/AIDS collaboration, particularly through the Emergency Plan. The U.S. Mission has prepared, in coordination with the government, a five-year strategic plan focused on treatment, prevention, palliative care, and the provision of care for orphans and other vulnerable children.

¶31. (U) The epidemics of HIV and tuberculosis (TB) are interlinked. TB is the most common infectious disease associated with HIV in sub-Saharan Africa and between 50 and 88 percent of TB patients in Southern Africa are HIV positive. A high overall prevalence rate for HIV and lack of continuity in treatment contributes to the increasing incidence of active TB disease, including multi-drug resistant (MDR) strains. In conjunction with HIV, TB is

linked to substantially higher fatality rates, even in the presence of effective TB chemotherapy.
BOST